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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID/CAUCASUS

RESULTS REVIEW AND
RESOURCE REQUEST
AZERBAIJAN

JUNE 1997

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FY 1999

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ABBREVIATIONS

AIOC	-	Azerbaijan International Operating Company
CBIHA	-	Coordination Bureau for International Humanitarian Assistance (Georgian Government organization)
CEPAR	-	Center for Economic Policy Analysis and Reform (Georgia)
CEPRA	-	Center for Economic Policy Research and Analysis (Armenia)
CIS	-	Commonwealth of Independent States
CLAU	-	Caucasus Logistics Advisory Unit
CUG	-	Citizens' Union of Georgia
DOT	-	U.S. Department of Treasury
EBRD	-	European Bank for Reconstruction and Development
EC/ECHO	-	European Community Humanitarian Office
ECU	-	European Currency Unit
EPS	-	Electronic Payments System
EU	-	European Union
FMS	-	Financial Management System
FSU	-	Former Soviet Union
GANSP	-	Georgia-Armenia Nutritional Supplement Project
GDP	-	Gross Domestic Product
GIOC	-	Georgia International Oil Company
GOA	-	Government of Armenia
GOAz	-	Government of Azerbaijan
GOG	-	Government of Georgia
GTZ	-	German aid program
IBRD	-	International Bank for Reconstruction and Development (World Bank)
ICRC	-	International Committee of the Red Cross
IDP	-	Internally Displaced Person
IFI	-	International Financial Institution
IFRC	-	International Federation of the Red Cross
IMF	-	International Monetary Fund
IOM	-	International Organization for Migration
IR	-	Intermediate Result
MW	-	megawatts
MVD	-	Georgian State Police
NBG	-	National Bank of Georgia
NGO	-	Non-governmental Organization
NET	-	NIS Exchanges and Training Project
NIS	-	New Independent States of the former Soviet Union
OSCE	-	Organization for Security and Cooperation in Europe

PAROS - Armenian Government's needs-based voluntary registration program for humanitarian assistance
PVO - Private Voluntary Organization

SCF - Save the Children Federation
SIF - Social Investment Fund
SME - Small and Medium Enterprise
S.O. - Strategic Objective
STF - Systemic Transformation Facility (IMF)
STI - State Tax Inspectorate (Armenia)
STS - State Tax Service (Georgia)

TACIS - Technical Assistance Program of the European Union for the former Soviet Union

UNDP - United Nations Development Program
UNHCR - United Nations Human Rights Commission
UNICEF - United Nations International Children's Fund
USDA - U.S. Department of Agriculture
USGS - U.S. Geological Survey

VOCA - Volunteers in Overseas Cooperative Assistance

WFP - World Food Program
WTO - World Trade Organization

AZERBAIJAN RESULTS REVIEW AND RESOURCE REQUEST FY 1999

PART I

INTRODUCTION AND OVERALL COUNTRY PERFORMANCE

General

This R4 document represents an interim submission at the midpoint between the earlier, unapproved country strategy documents and a new regional strategy to be submitted to ENI/W in late winter/early spring of 1998. As such, it contains program elements outlined in the earlier strategy, as well as the introduction of some new concepts and programmatic thrusts. To the extent that these new emphases are not yet fully articulated in this document, USAID/Caucasus requests reviewers' indulgence, reflection and participation in the overall strategy development exercise which will commence in earnest in early fall with the arrival of new staff in the region.

Our thanks in particular to the R4 Swat Team of Dagnija Kreslins, Bobby Herman, Mervyn Farroe and Kevin Kelly without whose participation, energy and wisdom the preparation of this document would not have been possible in the time available.

Regional Overview

The last year has been a time of transition for USAID/Caucasus. The majority of USDH staff in the region left for new posts, and was replaced by new arrivals. With the support of ENI/W, the mission began a significant expansion, particularly in Armenia and Georgia. New building projects were identified and initiated at both sites to house an expanded USAID presence. In Azerbaijan, USAID's tiny FSN staff grew slightly, but their efforts were substantially enhanced by a more regular and intense schedule of staff travel to Azerbaijan from the regional office in Yerevan, particularly in support of humanitarian and democracy programs.

The last year saw little forward progress on peace in the stalemate between Armenia and Azerbaijan over the Armenian enclave of Nagorno-Karabakh. If anything, the situation grew warmer with Russian weapons transfers to Armenia and more frequent reports of shelling incidents on both sides of the border. With respect to Abkhazia, however, the Georgian government appears to have recommitted itself to a negotiated settlement, and is actively taking steps to encourage this result. Both conflicts require early solutions if the region is to maximize its opportunities for political and economic development over the next several years.

Azerbaijan

Azerbaijani oil has not yet begun to flow; nevertheless, Baku is in many respects a boomtown, filled with foreign businessmen and, increasingly, foreign investment. Outside Baku, however, the situation is much starker. Markets are bare, electricity is sporadic, particularly in winter, and there is little evidence that Baku's boom is being replicated elsewhere in the country.

Environmental pollution is more evident than elsewhere in the region, and affects not only quality of life, but also agricultural potential. In short, beyond a well-connected elite in the capital city, there are few signs that any of the limited economic reform measures introduced to date in Azerbaijan are having much impact in transforming the economy.

Political repression, which waxes and wanes in Baku, appears to have a stronger grip outside the capital, although there are occasional points of light in independent television and regional non-governmental organizations. In sum, the future of Azerbaijan looks problematic unless the government is prepared to channel substantial portions of early oil resources into productive enterprises in the hinterland and allow a greater measure of political and economic pluralism to take hold.

USAID is thus proposing to enhance significantly the proportion of the Azerbaijan budget attributed to democratic pluralism and economic restructuring objectives. The primary thrust of these expanded efforts will be to stimulate political and economic pluralism, and to attempt to create alternative centers of political and economic power within a still highly centralized, largely authoritarian, and highly corrupt environment.

Little progress on a Nagorno-Karabakh settlement means that Azerbaijan's roughly 800,000 internally displaced persons remain scattered over the country in camps, railroad cars, and public buildings converted to IDP housing. Efforts by the donor community, including USAID, have undoubtedly made it possible for IDPs to survive the last four winters. With the most basic needs largely met, the donor community faces a decision point: whether to begin significantly enhancing the living conditions of the IDPs in situ (and thus signal that a political solution enabling them to return to their homes in the occupied territories may be far off), or to devote new resources to encouraging IDP resettlement in certain parts of the occupied territories, in the hope that their return will stimulate greater movement in the peace process. The donor community is divided on these issues, and even those who favor rapid resettlement acknowledge the magnitude and the complexity of the task.

The U.S. Embassy in Baku, desiring that the U.S. be in the forefront of a demining, resettlement and rehabilitation effort, has sought relief from the prohibitions of Section 907, in the belief that it would be not only difficult, but also politically undesirable from the perspective of U.S. interests in Azerbaijan, for us to support resettlement and rehabilitation under the strictures of 907. Our planning budgets for FYs 98 and 99 reflect growing funding for this purpose; the exact nature of the delivery mechanisms will need to be developed depending upon the status of Section 907 prohibitions at that time.

PART II

STRATEGIC OBJECTIVE RESULTS REVIEW

I. STRATEGIC ASSISTANCE AREA 1 – A COMPETITIVE MARKET-ORIENTED ECONOMY

1. Overview and Factors Affecting Program Performance

Azerbaijan, well-endowed in oil resources, has been comparatively slow to undertake economic as well as political reform. The repressive regime of former Communist Party leader Heydar Aliyev has not exhibited the requisite political will to embrace democratic institutions and practices or to dismantle the Soviet era central planning system. Widespread corruption remains another brake on the country's evolution toward free-market democracy.

Since the early 1990s Azerbaijan has experienced several external shocks resulting in one of the most severe economic downturns of any of the New Independent States. First, the military conflict over the breakaway ethnic Armenian enclave of Nagorno-Karabakh resulted in some 800,000 refugees and internally displaced persons (IDPs), whose plight the government of Azerbaijan is ill-equipped to address financially or administratively. About one-fifth of Azerbaijani territory remains under occupation, preventing resettlement of displaced populations.

The second shock to the system was the dissolution of the Soviet Union with its accompanying disruption in trade links between Azerbaijan and many of the former republics which had been reliable markets. Third, Azerbaijan suffered from a deterioration in its terms of trade, first as Turkmenistan moved to charge world market prices for energy, then with the rupturing of trade routes through Georgia and Chechnya.

For most of the post-independence period, Azerbaijan's energy and resources have been directed toward the Nagorno-Karabakh conflict and internal political strife. More recently, however, as the military and political situations have stabilized, the country has turned more attention to the badly needed economic reform. Two years ago the government reached agreement with the IMF on a Systemic Transformation Facility resulting in unification of the exchange rate. Inflation was brought under control, prices for most goods were liberalized and trade restrictions eased. But privatization of state-owned industries and economic restructuring have lagged badly.

The economic future of Azerbaijan (and arguably of the entire Trans-Caucasus region) is inextricably tied to the development of its off-shore oil fields. The first phase of investment by an international consortium of oil companies, entailing the rehabilitation of the existing Chirag platform, began in late 1994. Rehabilitation and construction of two pipelines, via Georgia and Russia, for transport of this oil has begun.

Its ability to attract foreign capital to the oil sector, notwithstanding, Azerbaijan has made only limited headway in dismantling the system of central planning inherited from the Soviet Union. One area in which there has been a hint of progress is farm land privatization, particularly in the south, where some of the country's most fertile land is found. The result has been a small

number of privately-owned farms along with a few farmer cooperatives. With Section 907 of the FREEDOM Support Act [see below] proscribing USG assistance to the Government of Azerbaijan, these fledgling agricultural enterprises offer one of the few opportunities for USAID to help promote the transition to a market-based economy.

It is recognized that the development of a predominantly private, market-based agriculture and agri-business sector rates high, after exploitation of the country's large oil reserves, for substantial growth in trade, employment and overall GDP.

As with other strategic assistance areas in USAID's Azerbaijan portfolio, Section 907 of the FREEDOM Support Act, which prohibits U.S. Government assistance to the Government of Azerbaijan, severely constrains the scope and reduces the effectiveness of the U.S. effort to support the transition to free-market democracy. Specifically in the economic sphere, Section 907 precludes work on legal and regulatory reform, institutional capacity building at key ministries and parliament, and an array of other activities critical to the establishment of a well functioning market economy.

2. Progress Toward Objectives, Expected Progress through FY 1999 and Management Actions.

2.1. SO 1.3 Accelerated Development and Growth of Private Enterprise

To date, the only USAID-supported activity under this SO is a program administered by the Volunteers in Overseas Cooperative Assistance (VOCA) which provides technical assistance and training to a small number of private farmers and independent farmer cooperatives. The focus of these activities are: improved farming practices, agribusiness development and marketing, and farm cooperative management.

Expected Progress through FY 1999 and Management Actions

Over the next two years USAID/Caucasus is planning to launch new activities -- consistent with Section 907 -- to stimulate the creation and growth of small business. Some of the activities under consideration include continued technical assistance and training to support private enterprises in the agricultural sector, debt/equity for small and medium-sized enterprises (SMEs), micro-credit programs, and technical assistance to small businesses through appropriate PVOs.

Because the magnitude of resources dedicated to possible SO 1.3 activities is still to be determined, it is extremely difficult to project anticipated impact with any degree of confidence. At a minimum, USAID/Caucasus expects to increase the prospects for profitability of a relatively small number of new private enterprises, primarily in agriculture, and thereby help strengthen the nascent small business sector. Other USAID programs might then assist any resulting association of small business owners on how to represent the interests of its members more effectively in policy dialogue with the government. At the same time, various USAID-funded training programs can be expected to produce a cadre of skilled entrepreneurs who will launch new businesses, and reform-minded, would-be policymakers who will advocate an accelerated transition to a market economy.

In the event that Section 907 is rescinded, the Mission would certainly expand greatly its programs in this strategic assistance area, although efforts beyond the development and growth of the small business sector would depend on political will of the Azerbaijani government to institute long-postponed market reforms.

II. STRATEGIC ASSISTANCE AREA 2 -- EMPOWERMENT OF CITIZENS THROUGH DEMOCRATIC POLITICAL PROCESS

1. Overview and Factors Affecting Program Performance

Due to Section 907 constraints and related considerations about USG policy in Azerbaijan, USAID's Democracy and Governance programs have been confined to Strategic Objective 2.1 focussing on citizen participation. Despite the formidable constraints on democratic political activity imposed by the Aliyev regime, limitations arising from Section 907, and the relatively modest resources dedicated to this SO, USAID/Caucasus has registered some important progress, particularly in strengthening Azerbaijan's nascent civil society. However, it must be reiterated that the near absence of political will on the part of the present government to move the country resolutely down the democratic path precludes major systemic impact of USAID-supported programs, including training and educational exchanges, in the short-run. In Azerbaijan, USAID is engaged in a necessarily longer-term strategy focused largely on civil society.

For long-term political stability and broad-based economic growth, Azerbaijani citizens must become actively involved in their country's transition process. Without such engagement, and the emergence of a robust civil society, the oil-triggered economic development of the country is likely to enrich only a very small percent of society. The broader population will not share in the prosperity. In order for citizens to begin this process, they will need information, education, and advocates. A strong independent media, vocal and non-partisan advocacy groups, and skilled and responsive political activists are required to mount pressure from below for democratic market reforms which could lead to a successful and sustainable transition.

In order for citizens to understand, much less effectively participate in, their country's transition, they need objective information about what is going on in the outside world, as well as within their own borders. State media do not provide this information; audiences mainly get detailed coverage of the President's daily meetings and speeches. The opposition party press, although censored by the State, does provide a slightly broader range of international and domestic coverage. There are a handful of independent non-partisan media outlets, but few of these are willing to take risks in their news coverage, if they provide news at all.

In addition to a lack of objective information, a majority of Azerbaijani citizens appear to have lost hope, if not interest, in participating in the nation's difficult transition to a free-market democracy. A critical element for citizen participation would be the opportunity to have their concerns voiced by duly elected representatives within a pluralistic political system. The November 1995 Parliamentary elections and constitutional referendum, determined to be "neither free nor fair" by international observers, further compounded the fairly high level of citizen skepticism. The elections dealt a serious blow to the gradual development of open political pluralism in Azerbaijan. The parliamentary elections gave eight of thirty-one registered parties seats in the legislature, but the government party, the New Azerbaijan Party, succeeded with 70 official party-list seats out of 125 deputies, and a minimum of 30 pro-government majoritarian seats.

A third critical element for citizen participation in a democracy, outside of the institutional sphere, concerns advocacy by non-governmental actors. The development of a community of NGOs in Azerbaijan has begun in earnest in the capital, but that development is hampered by a number of factors. First and foremost is a limited understanding of the role of NGOs in a

democracy, and the concept of non-partisan organizations. The first few NGOs that sprang up following independence were in fact branches of the various political parties. Many of these new NGOs face the same limitations that political parties throughout the former Soviet Union face, that is, a lack of commitment, comprehension and/or ability to represent a larger constituency beyond one's own party. Few if any Baku-based NGOs have developed regional branches, and many are still firmly attached to political parties.

In addition to these internal constraints, the political environment for NGO development is restricted by the GOAz -- though not as overtly as for the media. Registration can be an extremely difficult and lengthy process for any NGO not solely focused on humanitarian assistance, and is often based largely on whether the Ministry of Justice feels "comfortable" with the listed members of the organization. Existing legislation offers few exemptions for NGOs, and more or less reflects Soviet norms. Finally, activists in the capital still live under a (diminishing) cloud of suspicion and fear, which has limited the degree to which NGOs have been willing to cooperate and exchange information among themselves. However, based on perceived shared needs, such as lobbying for legislative changes which affect NGOs, there appears to be a trend toward increased openness and cooperation within the growing NGO community.

These are some of the critical challenges to the development of an active and effective civil society in Azerbaijan. Outside of the capital, the prospects for grass-roots civic action is still severely limited. However, though they present certain political and economic constraints on their local neighbors, many IDP communities outside of Baku incorporate core groups of civic leaders -- particularly women -- focused on improving their lot by action and advocacy. Thus, this presents both a constraint and a boon to civic society development in the countryside, one which has the potential, with appropriate support and resources, to foment change.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions.

2.1. S.O. 2.1 Increased, Better-Informed Citizens' Participation in Political and Economic Decision-Making

Progress Rating: 1-2

Result Statement	Exceeding Expectations	Meeting Expectations	Below Expectations
SO 2.1: Citizen Participation		X	
IR 2.1.1: Improved availability of and access to information		X	
IR 2.1.2: Increased public confidence in citizens' ability to affect change			X

Performance Analysis

Despite the forementioned constraints on the Azerbaijani mass media, some progress has been achieved in the reporting period. Censorship continues in an ad-hoc arbitrary manner, but its effect outside of the print sphere is limited. The quality of reporting has not necessarily improved, but there is a strong recognition among media professionals of a need for training. Several groups, including a well-established independent journalists' association, are working to

establish short-term training programs outside of educational institutions. In addition, the issue of party versus independent press is being raised continuously, and is being dealt with in a serious manner. A handful of print media outlets associated with political parties are looking for alternative partnerships for financial support in order to pursue non-partisan journalism.

In regards to the development of political pluralism, it indeed still exists in Azerbaijan, or more specifically in Baku. The opposition parties are generally well-organized, if rather centralized and inwardly-turned, and though limited in their access to the general public, have been allowed to openly discuss political issues in their party press vehicles. There is, at a minimum, a tacit recognition from the GOAz that a full shut down of opposition parties and press could create political tensions with the West, which could, in turn, jeopardize other government objectives (e.g., trade, investment). The urban population is generally familiar with the largest parties, and, due to the frenzied political posturing following independence, even can be said to have a general understanding of the various party platforms. Finally, a handful of political parties have shown increasing interest in expanding their constituencies within and outside of the capital.

The development of the NGO community in Baku has progressed substantially in the last year -- due in large part to the increased availability of international donor resources. In addition, unlike in previous years, few of the new organizations being established are affiliated with political parties. These new groups focus on issues such as women's health, drug awareness, economic reform, environmental protection, and human rights promotion. Many of these groups have shown an interest in working on civic education -- that is, in educating a larger portion of the population about their rights and responsibilities within the new national structures. The skills for such work are lacking, but their desires and commitment are increasingly evident.

IR 2.1.1

USAID programs in support of this intermediate result have had positive but limited impact, due in equal part to local political constraints and limited USAID resources dedicated to the task.

Limited USAID assistance has been focused on independent television development. As in the other Caucasus countries, access to print media is limited due to high cost, and minimal distribution outside of the capital. The USAID program has supported the development of a network of independent stations throughout the country. At different times during the reporting period, certain member stations have been unable to broadcast due to pressure from local authorities, and/or lack of financial resources. However, at least four of the seven cooperating stations have received necessary licenses and are on the air. One of these, a station in the provincial city of Zagatala run by two young women journalists, broadcasts every week, despite electricity shut-downs and political pressure from local officials not to air non-State sponsored news programs. The station managers attribute their staying power in large part to USAID-funded assistance, including limited equipment provision, and more importantly, training and "moral" professional support.

Out of several independent television stations broadcasting in the capital, only one, ANS, provides regular, if somewhat politically "safe," news coverage for Baku audiences. USAID support for this station, both with training and limited commodities procurement, has helped the station to develop as a commercially viable and professional entity. The station, unlike others in the capital and the rest of the region, only uses licensed programming, and produces its own news segments, rather than (as it had begun to prior to USAID support) pirating American and Russian movies. This station will take the lead in the development of a national television network of independent stations.

Most of the stations outside of Baku, which invariably are the only source for news not censored by the State, cannot survive as commercial enterprises without outside resources. The advertising potential that is evident in the capital city of an oil-producing nation is completely lacking in the country-side. Therefore, many stations rely on local officials and/or "mafia" for financial support, often requiring them to compromise their journalistic integrity. Oil revenues are expected to begin increasing in early 1998, when the pipeline is finished. Some trickle-down (out) effect is expected to hit secondary cities. With limited financial and technical support in the short-term from international sources -- including USG and private donors such as Soros which are committed to this activity -- a core group of stations could withstand local pressure and develop their own financial and political strengths, supported by the already stable Baku-based network leader, until such time as regional revenues increase.

Without continued outside support over the next 12-18 month period, independent television which provides objective news coverage will disappear in Azerbaijan.

IR 2.1.2

Despite serious political and financial constraints, USAID assistance programs for the NGO sector in Azerbaijan have had significant impact in the capital city, with some limited but important effect on a few key secondary cities.

The USAID program has focused on building NGO capacity, through financial, management, and program training, as well as small (under \$3,000 each) direct grants. To date, well over 100 NGOs have participated in USAID-funded training. Modest successes include:

Training for/grant to an environmental NGO to produce a bulletin on current environmental issues in Azerbaijan which has wide distribution in the capital, including international organizations, and has resulted in initial dialogues with the Ministry of Environment and the UN on issues concerning the environmental crisis of the city of Sumgait;

Training for/grant to the independent journalists' association, Yeni Nacil, to produce an alternative draft law on freedom of information and free press, which is being considered by the Parliamentary Committee on Media and Communications;

Training for/grant to an organization devoted to demographic research, which produced a study on the potential labor market in Azerbaijan, which has been distributed to international business consortia active in Baku.

USAID has also funded programs of assistance for political party development. These programs have focused on training in areas such as campaigning, platform development, constituency building, regional outreach, and cooperative dialogue. Given political constraints, particularly the government's limitation on opposition parties' publications and gatherings, these programs have had limited impact in the short-term. However, upcoming municipal elections may give all parties an opportunity to broaden their base constituencies, and have a more direct impact on regional policy development. USAID assistance programs in this regard have resulted in at least three parties expanding their regional outreach programs, and developing party platforms based on research and survey data identifying local needs and issues.

Expected Progress through FY 1999 and Management Actions

Given a significant increase in funding expected in FY 1998, the establishment of a network of independent television stations in a minimum of six cities, providing objective news

coverage, and working toward financial sustainability through advertising revenues;

An increase in the number of NGOs active in secondary cities, particularly those with IDP communities, which can effectively implement programs, establish links to real constituencies, and initiate policy reform dialogue with the GOAz;

Multiple party participation in the tentatively scheduled 1997 municipal elections and 1998 presidential elections, in which at least three parties have platforms based on local issues, rather, than appeals for support based on personalities.

III. STRATEGIC ASSISTANCE AREA 3 -- STRENGTHEN THE CAPACITY TO MANAGE THE HUMAN DIMENSION OF THE TRANSITION

1. Overview and Factors Affecting Program Performance

The overall humanitarian situation in Azerbaijan has not changed significantly during the past year. Nearly 800,000 ethnic Azeris and Kurds remain displaced by the conflict over Nagorno-Karabakh, having fled Armenia and occupied areas of Azerbaijan. The Government of Azerbaijan (GOAz) lacks the resources and organizational capacity to provide essential aid and services for this refugee/displaced population. International organizations and bilateral donors have filled this void to date, and have successfully averted large-scale humanitarian crises, such as acute malnutrition, epidemics, or deaths from physical exposure to the elements.

The medium-term prognosis for Azerbaijan's ability to meet the basic needs of its citizens is quite good, assuming that projected oil production revenues are partly directed to that end. In the interim, there will continue to be a need for generous amounts of international humanitarian assistance. Furthermore, until a political settlement to the conflict over Nagorno-Karabakh is achieved, the situation for the refugees and internally displaced persons (IDPs) will remain precarious. After more than three years of exile, living arrangements established for what was meant to be a temporary situation have deteriorated considerably.

Section 907 of the FREEDOM Support Act, which proscribes USG assistance to the Azerbaijani government, prevents USAID from working to bolster the capacity of the GOAz to address its citizens' present humanitarian needs, and as such also reduces the government's potential to respond effectively if and when the Nagorno-Karabakh conflict ends.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions

2.1. SO 3.1 -- Reduced Human Suffering and Crisis Impact.

Progress Rating: 2

Since 1993, USAID has funded humanitarian assistance activities aimed at reducing the suffering of refugees and IDPs in Azerbaijan. This assistance has contributed significantly to the overall international effort to meet the critical needs of those displaced by the Nagorno-Karabakh conflict. USAID-funded assistance has concentrated on three sectors: food security, shelter, and health. Section 907 of the FREEDOM Support Act necessitates that all USG assistance continues to be provided through Private Voluntary Organizations (PVOs) and international organizations. Recently, USAID has also supported transitional or bridging activities, consisting primarily of small-scale income generation projects, which have begun to promote greater self-reliance on the part of beneficiaries.

Food Security

USAID food assistance to Azerbaijani IDPs began in FY 1994. In 1996 approximately 140,000 IDPs and socially vulnerable persons have received on-going food supplementation through USAID-funded activities. Mechanisms for providing this assistance have included a bilateral program with Cooperative Assistance and Relief Everywhere (CARE), letter grants to the World Food Program (WFP), and sub-grants under the Save the Children Federation (SCF) umbrella program. Outstanding examples of recent progress in this area include the following:

- Sub-grants under the SCF umbrella cooperative agreement to World Vision International (WVI) have distributed supplemental food parcels to an average of 92,747 IDPs per month in 12 districts of north-central Azerbaijan; and the American Red Cross (ARC) has provided supplementary food assistance to 8,000 of the most vulnerable families every other month in 8 districts on Azerbaijan's front line.
- The WFP program in Azerbaijan has focused primarily on IDPs, but has included distributions to socially vulnerable individuals and families hosting IDPs. It is estimated that USAID support has enabled over 38,000 IDPs to receive regular supplemental rations every other month; and
- Through the Adventist Development and Relief Agency's (ADRA) sub-grant, food needs to various populations in Nakhichevan, the enclave region of Azerbaijan, is increasing food security by distributing family garden kits to 500 IDPs and vulnerable families while establishing 50 private market garden enterprises which will produce vegetables for commercial purposes.

Shelter

USAID-funded activities have sought to improve housing for the most vulnerable IDPs in Azerbaijan. Approximately 3,100 IDP families received materials in 1996 to construct or improve their own shelter and personal latrines in south and central Azerbaijan. In addition, USAID expanded its shelter activities to the repair and winterization of large, urban public buildings which benefited 18,156 IDP households. Outstanding examples of recent progress in this area have been the following:

- Through the SCF umbrella program, the International Rescue Committee (IRC) provided materials for 1,902 IDP families (9,510 people) located in 117 villages in south and central Azerbaijan. IDPs who qualified for the project built their own homes and latrines from materials which IRC provided. IRC also provided technical assistance to teach the beneficiaries how to build their new shelters and latrines. CARE has also provided mud-brick shelter building and latrine components to approximately 1,200 IDP families (6,000 people) living in 55 villages in south and central Azerbaijan. During 1996 CARE also distributed plastic sheeting, wood planks and nails to repair 500 pre-existing shelters.
- Programs in this sector have recently been expanded to include rehabilitation of public buildings in urban settings (Baku and Sumgait) to acceptable safety, sanitation, and winterization standards. Deterioration due to crowded conditions and lack of maintenance have led to sub-standard living conditions. USAID's effort, through the implementation of World Vision International (WVI) and Mercy Corp International, is the first such public building initiative in these densely IDP/refugee-populated cities. Approximately 80 buildings have been selected for repair and winterization which will benefit more than 18,000 IDPs. Community committees have been formed in the buildings for maintenance and upkeep, increasing the likelihood that residents take an active interest in the results.

Health

Poor living conditions, combined with lack of access to health care and primary health prevention services, have led to a deterioration in the health status of IDPs, refugees, and vulnerable populations. The provision of basic health care and the development of an effective and sustainable public health awareness program has been USAID's overall objective in this sector. Approximately 350,000 IDPs have access to USAID-funded health programs. Outstanding examples of recent progress in this area have been the following:

- A recent grant to UNICEF is targeting vaccine preventable diseases. This follows a

successful national diphtheria inoculation campaign. This campaign, carried out through PVOs, was part of a coordinated effort in all three Caucasus countries. The incidence of diphtheria is now down to one-sixth of its level at the height of the crisis;

- Relief International (RI) operates a system of mobile health clinics with a sub-grant through the SCF umbrella program. This system reaches an average of 30,000 refugee and IDP patients each month; and
- United Methodist Committee on Relief (UMCOR) has recently expanded the scope of U.S. health assistance by launching primary health and public health education programs in Baku and the Absheron Peninsula reaching some 123,000 IDPs, refugees, or vulnerable persons. These programs have also benefitted more than 15,000 such persons in seven southern IDP camps.

Transitional Activities

In USAID's effort to support the transition from dependence on humanitarian aid to self-reliance within IDP communities, WVI, with a sub-grant through the SCF umbrella program, has created micro- and small-enterprises through a "Quick Impact Income Project" resulting in 197 new businesses. The businesses now cover a range of 46 different types of enterprises, some of the most common being sewing, confectionery, leather goods, livestock, blacksmithing and beekeeping. Wholesale trading was one of the most profitable businesses.

USAID is also supporting and strengthening indigenous Azeri NGOs. ISAR, under SCF, has established an NGO Training and Resource Center in Baku. ISAR's center trains staff on proposal writing, organizational development, management and leadership, and conducts a small grants project.

Expected Progress Through FY 1999 and Management Actions

Even though several years have passed since the onset of Azerbaijan's war-spawned humanitarian crisis, the capacity of the government to provide essential assistance to the several hundred thousand refugees and IDPs remains extremely limited. There is also legitimate concern on the part of international donors and many Azerbaijanis about the commitment of the GOAz to take steps to ameliorate the suffering of this largely impoverished population.

The relative success of U.S. PVOs and international organizations in averting a humanitarian disaster does not change the reality of the ongoing need for substantial assistance, at least until a peace accord allows significant numbers of IDPs to return home where they can once again meet most of their own material needs. Thus, the provision of humanitarian assistance -- food, shelter and basic health care -- will remain USAID's top priority in Azerbaijan for the foreseeable future, absent a negotiated end to the conflict and/or the likely recision of Section 907.

USAID grants to the WFP will provide food assistance to IDPs and refugees throughout Azerbaijan. USAID will continue to fund shelter construction to replace or upgrade tents and reed huts utilizing local materials. These new mud brick shelters can be easily dismantled in the event resettlement becomes an option. USAID will continue to support the efforts of international organizations in areas such as the Expanded Program of Immunization and the anti-malarial campaign of UNICEF and water/sanitation programs in the southern camps through the International Federation of the Red Cross and Red Crescent Societies (IFRC).

It is likely that projects will be designed to facilitate the resettlement of IDPs in areas occupied at one time by ethnic Armenian forces but now re-occupied by Azerbaijani forces. These projects

may include demining and mine awareness programs in addition to the services already provided by U.S. PVOs in other regions of Azerbaijan.

Transitional activities emphasizing income generation will include a broad array of project/skill areas with an eye to improved employment opportunities in the future. Where feasible, USAID will also give priority to community development-oriented approaches to humanitarian relief as is currently being piloted in the public building rehabilitation initiative.

USAID, in concert with other donors, would undertake some contingency planning in the event, albeit unlikely, a peace settlement is reached in the near future. In its forthcoming country assistance strategy, USAID/Caucasus will outline planned activities in anticipation of such an occurrence. These activities would most likely focus on such areas as resettlement of refugees and IDPs, and reconstruction efforts, explicitly linked to economic restructuring and democracy building strategic objectives in a post-Section 907 environment.

IV. STRATEGIC ASSISTANCE AREA 4 - SPECIAL INITIATIVES AND CROSS-CUTTING ACTIVITIES

1. Overview and Factors Affecting Performance

Programs in Strategic Assistance Area 4 are limited to two cross-cutting activities - NIS Exchanges and Training (NET) and Eurasia Foundation. The NET program in Azerbaijan has been highly successful in reaching the wider general public of the country, while the Eurasia Foundation has not yet established itself (see Eurasia Foundation below). In spite of Section 907 prohibitions, the training program has demonstrated its unique capability to generate a local awareness of the U.S. presence in the country. The NET program is viewed as one of the major instruments for development by the US Embassy in Baku and, thus, has its full support.

In the training and exchange arena, USAID's development portfolio was strengthened by the FY 1997 Global Net Contract and by increased demand for training slots under expanded SO 3.1, and SO 2.1 activities. Given the need for continued broad-based training and increased sectoral requirements in business, economics and management, no less than ten percent of USAID's funds in 1998 and FY 1999 will be allocated to training activities in support of USAID/C Azerbaijan portfolio.

Though training activities have met expectations, several factors continue to affect full program performance. First, the impact of Section 907 limits the trainee pool and, second, additional time is needed to closely scrutinize and verify that proposed training beneficiaries are unconnected with Government of Azerbaijan programs. A third factor is USAID's continued ability to access academic institutions, parastatal/quasi-private businesses and non-governmental entities to permit open training recruitment. Other lesser factors include the willingness and ability of citizens to travel outside Azerbaijan, and the readiness of government officials to tolerate USAID/C supported training activities which have objectives tied to restructuring and reforming the country.

On the other hand Eurasia Foundation has not met expectations and shows no results to date. Eurasia's early attempts to award NGO grants was met by GoAz complaints regarding the tax status of Eurasia Foundation and its grant recipients. Thus, given the difficulties encountered by the Eurasia Foundation grants program, USAID/C requests that AID/W review the mandatory allocation of FY 1998-99 funds to Eurasia.

There are no USAID special initiatives underway in Azerbaijan at this time.

2. Progress Toward Objectives, Expected Progress Through FY 1999 and Management Actions

2.1 NIS Exchanges and Training

Using FY 1996 Carry-over and FY 1997 resources, to date 25 Azerbaijanis have travelled to the United States for short-term training while 40 others (including 14 alumni) have attended a four-day workshop on small business development in Baku. The training complemented other USAID activities in the country portfolio. Specifically, trainees completed programs designed to address the areas of private banking, human rights, and general small business development. For the latter part of FY 1997, training activities are planned for specific business development (textiles,

carpet weaving and leather work) and local training/conferences in post harvest methods and small farm profitability and enhancements.

Starting in FY 1998, The 21st Century Fund training programs will be initiated, as appropriate given Section 907, and training overall will be substantially increased. (NOTE: See Armenia and Georgia R4s for an explanation of The 21st Century Fund.)

2.2 *The Eurasia Foundation*

In FY 1996 the Eurasia Foundation attempted to initiate a small grants program and awarded two NGO grants. Their activities were soon abandoned when Eurasia was informed by GOAz that there was little likelihood of concluding a tax exemption agreement with the government concerning the proceeds of grant awards. USAID/C will consult with Eurasia Foundation to determine if the situation has changed. If status quo remains, USAID/C will request that no funds be earmarked for Eurasia activities in Azerbaijan.

V. PARTNERSHIP FOR FREEDOM (PFF)

Given the current political situation in Azerbaijan vis-a-vis finalization of a negotiated peace settlement with Armenia over the Nagorno Karabakh enclave and restrictions associated with Section 907 of the Freedom Support Act, there are limited prospects for PFF initiatives. In the preparation of the new Regional Caucasus and Azerbaijan strategy every effort will be made to review PFF precepts and incorporate specific PFF activities within the country portfolio, as appropriate. The most promising activities could be general training exchanges and partnerships and sector related training partnerships in agricultural improvement and agribusiness development.

PART III

STATUS OF THE MANAGEMENT CONTRACT

For the 1996 Azerbaijan Results Review USAID/C did not present an Azerbaijan country strategic document for review. Therefore, the Results Review focused on discussing anecdotal results and achievements of specific activities for two Strategic Objective - SO 3.1 and SO 2.1 and culminated in an ENI Bureau request that USAID/C Management prepare a Country Strategy for Bureau review as soon as possible but no later than winter 1996. The USAID/C Azerbaijan resource request for FY 1996-98 was based on USAID/C staff identification of the perceived needs of the over 900,000 refugees, IDPs and vulnerable populations to live and exist in their current status, as well as undertaking new nascent activities which would ease their transition home. USAID/C also identified needs and program components in the democracy and governance and economic restructuring/ privatization arenas. The ENI Bureau did not prepare a specific management contract cable for USAID/C Representative's concurrence and/or compliance, but incorporated references to the Azerbaijan program in the combined Armenia and Georgia cable.

Since the 1996 review, significant revisions in the developmental outlook and focus of the program in the Caucasus are necessary in view of new opportunities for growth which are regional in nature. For Azerbaijan, this is coupled with continuing irredentist tendencies and barriers to finalize a peace settlement in N-K and lack of a more liberal, progressive government. We have achieved only satisfactory results in the Humanitarian Assistance Objective and have had limited, marginal achievement with our Democracy and Governance objective in Azerbaijan. USAID's biggest barrier remains the prohibition to engage the government in Azerbaijan in these on-going areas and to initiate discussions on economic restructuring and policy issues. As USAID/C begins to develop a regional programmatic framework, these barriers will be reassessed and hopefully overcome with the assistance of other donors who have no Section 907 restrictions.

PART IV

RESOURCE REQUEST

I. Resource Request by Strategic Objective (SOs)

See Appendix A

II. Prioritization of SOs

Given USAID/C's intention to prepare a Caucasus Regional Strategic Plan and individual country plans this coming year, USAID/C has prioritized the SOs based on the analysis of assumptions and results presented in the R4. The SO prioritization presented below is preliminary and may change as strategies are finalized.

SO 2.1 - Though in terms of overall funding, democracy and governance activities are not the greatest, SO 2.1 is ranked highest. For any USAID strategy to succeed in Azerbaijan major efforts must be directed to establishing a pluralistic society which embraces democratic principles and to developing a broad-spectrum NGO community which effectively advocates for social, economic and political benefits.

SO 3.1 - Given the magnitude of the IDP and refugee population (approx. 900,000) who live in abominable conditions throughout Azerbaijan, the greatest share of financial resources will be allotted to SO 3.1 for food, health and shelter programs. However, in terms of strategic priority, SO 3.1 ranks second. This ranking is based on the possibility, albeit slim, that there will be a peace settlement and these people are able to return to their homes and start living again.

SO 4.2 (Cross-cutting - Training) - Given the overall success of training programs in Azerbaijan, this SO is ranked third. USAID/C views SO 2.1 and SO 3.1 as more significant in the short-term achievement of an Azerbaijan strategic plan, but SO 4.1 will become more significant in the out years (FY 2000 and beyond) when larger segments of the population will be eligible for training.

SO 1.3 - USAID/C ranks SO 1.3 the lowest. Activities under the SO are just getting underway and have no track record to justify a higher ranking.

III. Field Support Requirement from AID/W Offices

During FY 1998 USAID/C will require considerable technical support from AID/W, especially the ENI Bureau. Preparation of the new Azerbaijan Strategic Plan will require the continued assistance of ENI/PCS, ENI/PER, ENI/ED and ENI/DGSR staff to conceptualize, analyze and draft strategic documents and results frameworks. With the added emphases on demining activities and IDP/refugee resettlement to previously occupied areas under SO 3.1, USAID/C anticipates a need for increased technical assistance and expert advisors from the ENI Bureau, BHR/OFDA and BHR/FFP to conduct needs assessments and to prepare RFPs, RFAs, IQC Delivery Orders, and grant documents for these projects.

IV. Work Force and Operating Expenses

The current year has been marked by multiple changes within the mission. Within the first two months of FY 1997 the entire senior management staff changed and an Office of Financial Management established. Also, USAID/W (in conjunction with the new regional management team in Armenia) agreed to fund the refurbishing of an annex in the US Embassy compound in Armenia for use by USAID/C, and move the USAID/C satellite office in Tbilisi, Georgia to a non-condemned building and examine expanding USAID/C occupied space in Baku.

The unusual situation of having three new office configurations, with the additional costs of filling USDH positions (delayed in one case due to a State/USAID tandem couple), combined with the ICASS issues, has skewed numbers in an interesting manner. Please note that to the best extent possible, the requests for FY98 and the targeted level for FY99 for the three USAID/Caucasus budgets are straight lined.

An overwhelming issue for USAID/Caucasus is that as this understaffed mission moves into an intensified implementation phase, more staff (local and offshore) are required. After the May 1997 Management Review Team visit to the region, USAID/C was advised that future staffing levels and workforce requirements will be adjusted.

The summary tables in Annex #3 show current and projected OE requirements by major cost categories as of May 2, 1997 and workforce requirements as of June 9, 1997. Please note that the OE requirements were based on smaller workforce levels. The estimated additional cost for the new levels is approximately \$1.6 million in FY 1998 and drops to a lower increased amount in FY 1999. These additional costs have not been incorporated below due to uncertainty of when adequate office space will be available for new staff or when the additional costs will actually be incurred.

Current management concerns in Azerbaijan focus on USAID/C management vulnerabilities and are specifically highlighted by the lack of a USAID Direct Hire and/or USPSC presence. Country program oversight and direct supervision of FSN/PSCs is performed by US Embassy staff (Economic Attache) in Baku. Though USAID/C has appreciated the Embassy's assistance in these matters, USAID/C is fully aware of the limitations (e.g., internal control structure, priorities, limited reporting capabilities). USAID intends to address these issue by establishing a separate office and staffing the office with a USAID DH country coordinator or a high level experienced USPSC.

By establishing a country satellite office and providing USAID management in country, the overall country portfolio will receive additional scrutiny and OE staff will be able to focus on the program management and monitoring, provide the basic USAID functions, control and report adequately to USAID/C and USAID/W and, therefore, implement the programs more efficiently and effectively.

V. CFR 216 Environmental Compliance and Issues

In FY 1997-99 USAID's Azerbaijan program does not anticipate any authorization of capital construction, no requirement for environmental assessments is expected. Any new activities are likely to consist of technical assistance efforts qualifying for a Categorical Exclusion.

FY 1997 -- FY 1999
COUNTRY RESOURCE REQUEST BY SOs
AZERBAIJAN

Last revision date:
13-June-97

PF#	Proj.# Comp.	SOs	ACTIVITY	FY 97 Plan 13-June-97	FY 98 Plan 13-June-97	FY 99 Plan 13-June-97	FY 99 Plan (-8%)	FY 99 Plan (-20%)
		1.1	Increased transfer of state-owned assets to the private sector	\$0	\$0	\$0	\$0	\$0
		1.2	Increased soundness of fiscal policies and fiscal management practices	\$0	\$0	\$0	\$0	\$0
		1.3	Accelerated development and growth of private enterprises	\$2,800,000	\$4,500,000	\$5,400,000	\$5,076,000	\$4,320,000
		1.4	A more competitive and market-responsive private financial sector	\$0	\$0	\$0	\$0	\$0
		1.5	A more economically sustainable and environmentally sound sector	\$0	\$0	\$0	\$0	\$0
		2.1	Increased, better informed citizens' participation in political and economic decision making	\$500,000	\$2,400,000	\$2,000,000	\$1,880,000	\$1,600,000
		2.2	Legal systems that better support democratic process and market reform	\$0	\$0	\$500,000	\$470,000	\$400,000
		2.3	More effective, responsive and accountable local government	\$0	\$0	\$0	\$0	\$0
		3.1	Human suffering and negative consequences of crises are reduced	\$10,130,000	\$12,500,000	\$14,000,000	\$13,160,000	\$11,200,000
		3.2	Improved sustainability of social benefits and services	\$0	\$0	\$0	\$0	\$0
		3.3	Reduced environmental risks to public health	\$0	\$0	\$0	\$0	\$0
		4.1	Special Initiatives	\$100,000	\$100,000	\$100,000	\$94,000	\$80,000
		4.2	Cross-Cutting Programs	\$660,000	\$3,000,000	\$4,000,000	\$3,760,000	\$3,200,000
			TOTAL	\$14,190,000	\$22,500,000	\$26,000,000	\$24,440,000	\$20,800,000
STRATEGIC ASSISTANCE AREA 1: A COMPETITIVE MARKET-ORIENTED ECONOMY								
		SO 1.3	Accelerated development and growth of private enterprises					
PRT	5.7	1.3	Small and New Business - IESC	\$500,000	\$500,000	\$500,000	\$470,000	\$400,000
???	5.7	1.3	Private Enterprise Assistance		\$1,500,000	\$2,000,000	\$1,880,000	\$1,600,000
???	5.7	1.3	Admin: Tech Support/Field Mgt/PD&S			\$400,000	\$376,000	\$320,000
PRT	5.6	1.3	Agribusiness Support - VOCA	\$1,300,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
EF	11	1.3	MB Loans - Transcaucasus Enterprise Fund	\$1,000,000	\$1,500,000	\$1,500,000	\$1,410,000	\$1,200,000
			SUBTOTAL FOR SO1.3	\$2,800,000	\$4,500,000	\$5,400,000	\$5,076,000	\$4,320,000
STRATEGIC ASSISTANCE AREA 2: EMPOWERMENT OF CITIZENS THROUGH DEMOCRATIC POLITICAL PROCESSES								
		SO 2.1	Incr., better inf. citizens' participation in political and econ. decision making					
PRT	7.1	2.1	Political/Civic Orgs -- Political Process (NDI)	\$125,000	\$400,000	\$300,000	\$282,000	\$240,000
PRT	7.1	2.1	Political/Civic Orgs -- TBD		\$800,000	\$1,000,000	\$940,000	\$800,000
PRT	7.2	2.1	Independent Media -- Independent TV Media Development (INTERNEWS)	\$100,000	\$400,000	\$200,000	\$188,000	\$160,000
PRT	7.5	2.1	PVO/NGO Program -- NGO Development (ISAR)	\$275,000	\$500,000	\$500,000	\$470,000	\$400,000
PRT	7.7	2.1	Admin: Tech Support/Field Mgt. PD&S		\$300,000		\$0	\$0
			SUBTOTAL FOR SO2.1	\$500,000	\$2,400,000	\$2,000,000	\$1,880,000	\$1,600,000
		SO 2.2	Legal systems that better support democratic process and market reform					
PRT	7.4	2.2	Rule of Law - IQC and/or Grant TBD			\$500,000	\$470,000	\$400,000
			SUBTOTAL FOR SO2.2	\$0	\$0	\$500,000	\$470,000	\$400,000
STRATEGIC ASSISTANCE AREA 3: STRENGTHEN THE CAPACITY TO MANAGE THE HUMAN DIMENSION OF THE TRANSITION								
		SO 3.1	Human suffering and negative consequences of crises are reduced					
???	1.1	3.1	Vulner Groups Feeding -- Food Assistance (WFP)	\$2,600,000	\$2,500,000	\$2,500,000	\$2,350,000	\$2,000,000
???	1.2	3.1	PVO Cauc/Compr. Human -- SCF Umbrella CA	\$4,200,000	\$2,000,000	\$0	\$0	\$0
???	1.2	3.1	PVO Cauc/Compr. Human -- Umbrella Grant II (RFA)	\$1,230,000	\$2,500,000	\$5,000,000	\$4,700,000	\$4,000,000
ID/WQ	1.6	3.1	Multilat. Human Asst. -- Water Sanitation (IFRC)	\$150,000	\$0	\$0	\$0	\$0
ID/WQ	1.6	3.1	Multilat. Human Asst. -- IDP Health (UNICEF)	\$850,000	\$0	\$0	\$0	\$0
???	1.6	3.1	Multilateral Human Asst. -- TBD		\$1,000,000	\$1,000,000	\$940,000	\$800,000
???	1.7	3.1	Other Emergencies -- Demining (TBD)	\$1,000,000	\$2,000,000	\$0	\$0	\$0
???	1.7	3.1	Other Emergencies -- Refugee Resettlement - TBD		\$2,000,000	\$5,000,000	\$4,700,000	\$4,000,000
???	1.9	3.1	Admin: Tech Support/Field Mgt/PD&S	\$100,000	\$500,000	\$500,000	\$470,000	\$400,000
			SUBTOTAL FOR SO3.1	\$10,130,000	\$12,500,000	\$14,000,000	\$13,160,000	\$11,200,000
STRATEGIC ASSISTANCE AREA 4: CROSS-CUTTING PROGRAMS AND SPECIAL INITIATIVES								
EUR	10	4.1	UEAF Standard Grant	\$100,000	\$100,000	\$100,000	\$94,000	\$80,000
Exch	12	4.2	Buy-in Global Trng. Contract -- Admin. (AED)	\$660,000	\$3,000,000	\$4,000,000	\$3,760,000	\$3,200,000
			SUBTOTAL FOR SO4	\$760,000	\$3,100,000	\$4,100,000	\$3,854,000	\$3,280,000
PERFORMANCE FUND & TRANSFERS/ALLOCATIONS								
PF		XXX	Performance Fund	\$0	\$0	\$0	\$0	\$0
		XXX	Transfers or Allocations					
T/A			USIA Training and Exchanges - Partnerships	\$580,000	\$250,000	\$250,000	\$235,000	\$200,000
T/A			USIA Training and Exchanges - Exchange		\$750,000	\$750,000	\$705,000	\$600,000
T/A			EXIM Trade and Investment Support		\$3,000,000	\$3,000,000	\$2,820,000	\$2,400,000
T/A		3.1	Humanitarian Transport - SNIS/C	\$1,600,000			\$0	\$0
T/A			USDA Cochran Fellowships	\$50,000			\$0	\$0
T/A			Parking Fine Withholding	\$10,000			\$0	\$0
			SUBTOTAL FOR PERFORMANCE FUND & TRANSFERS / ALLOCATIONS	\$2,240,000	\$4,000,000	\$4,000,000	\$3,780,000	\$3,200,000
TOTAL (Azerbaijan)				\$16,430,000	\$26,500,000	\$30,000,000	\$28,200,000	\$24,000,000

PFF CODES:

FP Family Planning
 EUR Eurasia Foundation
 EF Enterprise Fund
 PRT Project Related Training
 FE Foundation Endowments
 ID/WQ Infectious Disease/Water Qual.
 TIE Trade Impediment Elimination
 IFI IFI Loan Support
 Exch Exchanges
 P 2/ Partnerships 2/
 PF Performance Fund
 T/A Transfers Allocations

			PROJECT SUMMARY	FY 97 Plan 13-June-97	FY 98 Plan	FY 99 Plan	FY 99 Plan (-6%)	FY 99 Plan (-20%)
			110-0001 Special Initiatives	\$10,130,000	\$12,500,000	\$14,000,000	\$13,160,000	\$11,200,000
			110-0002 Energy	\$0	\$0	\$0	\$0	\$0
			110-0003 Environment	\$0	\$0	\$0	\$0	\$0
			110-0004 Health Care	\$0	\$0	\$0	\$0	\$0
			110-0005 Private Sector	\$500,000	\$2,000,000	\$2,900,000	\$2,726,000	\$2,320,000
			110-0006 Food Systems	\$1,300,000	\$1,000,000	\$1,000,000	\$940,000	\$800,000
			110-0007 Democratic Reform	\$500,000	\$2,400,000	\$2,500,000	\$2,350,000	\$2,000,000
			110-0008 Housing	\$0	\$0	\$0	\$0	\$0
			110-0009 Economic Restructuring	\$0	\$0	\$0	\$0	\$0
			110-0010 Eurasia Foundation	\$100,000	\$100,000	\$100,000	\$94,000	\$80,000
			110-0011 Enterprise Funds	\$1,000,000	\$1,500,000	\$1,500,000	\$1,410,000	\$1,200,000
			110-0012 Exchanges & Training	\$680,000	\$3,000,000	\$4,000,000	\$3,760,000	\$3,200,000
			Transfers	\$2,240,000	\$4,000,000	\$4,000,000	\$3,760,000	\$3,200,000
			Performance Funds	\$0	\$0	\$0	\$0	\$0
			TOTAL COUNTRY	\$16,430,000	\$26,500,000	\$30,000,000	\$28,200,000	\$24,000,000

Annex 2.

Operating Expense and Workforce Requirements Tables

The summary tables below shows current and projected OE requirements by major cost categories as of May 2, 1997 and workforce requirements as of June 9, 1997. Please note that the OE requirements were based on the original, smaller workforce levels. The estimated additional costs for the new levels is approximately \$1.6 million for the first year dropping to a lower additional amount. These additional costs have not been incorporated below due to uncertainty of when there will be space available for new people or when the additional costs will actually be incurred.

Operating Expense (\$ 000)

	FY97	FY98	FY99 Requested	FY99 Targeted
Armenia	2,951.9	2,885.5	3,226.8	2,050.7
Azerbaijan	155.8	460.1	423.9	382.0
Georgia	618.5	801.3	886.0	670.0
Total	3,726.2	4,146.9	4,536.7	3,102.7

Azerbaijan Staffing

Due to Section 907 of the Foreign Assistance Act, assistance in Azerbaijan is limited to USAID programs which do not finance and or directly involve the Government of Azerbaijan.

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997			2	4	6
FY 1998	1		2	4	7
FY 1999	1		4	4	9
Request	1		4	7	12

The 907 restrictions, and the potential lifting of some of the restrictions, make it difficult for USAID to appropriately plan the workforce levels. However, it is hoped that a country coordinator will be in place in early FY98. This will allow USAID to better monitor and implement the current program.

Armenia Staffing

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997	14	4	27	22	67
FY 1998	14	3	27	45	88
FY 1999	14	2	27	45	88
Request	15	3	39	30	87

Please note that current occupied levels are well below the workforce level above. The above staffing levels include much needed support staff that will come aboard over the next six months. This will allow USAID/C - Armenia to function as a full regional mission without relying on multiple other missions for support. These levels will also allow USAID/C to better implement and monitor the highly politically sensitive Armenian Program as it moves into a heavy implementation phase.

Georgia Staffing

	USDH	OE/Int	OE/loc	Prog	Total
FY 1997	1		4	8	13
FY 1998	1		4	8	13
FY 1999	1		5	8	13
Request	3		6	18	27

Due to the difficulties in travel between Azerbaijan and Armenia, Georgia acts as a travel "hub." This, in addition to a large program, creates additional difficulties. With this in mind, USAID/C intends to staff Georgia to the level that it can operate the program, to a large extent, independent of Armenia. Support services (Controller, EXO, Legal, etc) will be supplied by Armenia.